



Planning for retirement: Your guide to your retirement benefits

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Contents

Types of retirement	4
Qualifying for benefits	5
Applying for benefits	6
How retirement benefits are calculated	7
Potential restrictions or reductions	8
Returning to work after retirement	9
Any questions or complaints?	11

Introduction

You don't have to be on the verge of retirement to start planning for it. In fact, the sooner you familiarise yourself with your options, the more relaxed you'll feel about the whole process. And hopefully you'll be better placed to make the right decisions about an important phase in your life.

Ready to start?

Types of retirement

Did you know that as a member of the Teachers' Pension Scheme there are several ways you could take benefits?

1. Normal age retirement

Age retirement benefits are payable when you reach Normal Pension Age (NPA) or from the day after you leave pensionable employment (whichever is later).

However, if you continue teaching after your 75th birthday, further service cannot be treated as pensionable and retirement benefits are payable from your 75th birthday.

2. Phased retirement from age 55

Want to combine your pension with more flexible working arrangements? You have the option to access your pension benefits from age 55 without having to give up work completely.

Phased retirement allows you to decide how much you wish to take of the benefits you have accrued – up to a maximum of 75% of your total benefits. You can take phased retirement without having a break in employment – but only if your pensionable salary reduces by at least 20% of the average salary you received in the previous 6 months. The reduction in salary has to be for a minimum of 12 months.

How could this happen?

You could take a post with less responsibility or you could work reduced hours.

If you retire on phased grounds after your NPA and then become re-employed your pension may be stopped.

Things to keep in mind:

- Your application for phased retirement must be made within three months of starting employment in a reduced capacity.
- You'll need to agree this arrangement with your employer as they will be required to provide confirmation of your salary reduction on your application form.
- You can exercise this option twice before final retirement.

Premature retirement

Any queries you may have about premature retirement should be raised with your employer and certain conditions apply. They are the ones who will be responsible for paying a portion of the pension and lump sum.

Premature retirement is not an automatic right. It is at the discretion of your employer.

Ill health retirement

If you become permanently unfit to teach due to illness before you reach your NPA you may be eligible for ill health benefits. For detailed information, please see our active member guide, or the ill health section on our website.

3. Actuarially Adjusted Benefits (AAB)

You may claim retirement benefits if you are 55 or over, under NPA and have been in pensionable teaching employment on or after 30 March 2000.

If you apply whilst in service, AAB is paid from the day after the last day of pensionable employment. If

you retire early, your pension benefits will be spread over a longer period. This means that you will receive a smaller pension and lump sum than you would have done if you'd retired at your NPA.

However:

- There must be a cessation of all employment before AAB is payable. If you take up a further employment after you apply for AAB it must be under a completely different and new contract of employment, and there must be at least a one day break between contracts.
- If you are applying for AAB and you are still in teaching employment, you must cease all pensionable employment with the consent of your employer before you can access your retirement benefits. The payable date will be the first day after you leave employment.
- Remember, your employer cannot withhold their consent for longer than six months from the date on which you request your pension benefits.
- You may choose the payable date if you're out of pensionable service. But you should know that benefits will not be paid any earlier than six weeks after the date you signed the application form.
- You must not re-enter any teaching employment during this six-week period or your application will be invalidated.
- If you choose AAB, the actuarial adjustment will apply throughout the time your benefits are in payment.

Qualifying for benefits

You need to know your Normal Pension Age (NPA) – and whether you'll have enough pensionable service to qualify for benefits. So let's find out.

If you've been a member of the Teachers' Pension Scheme since 1 January 2007 you will have a Normal Pension Age (NPA) of 65.

However, if you started teaching before 1 January 2007 and were a member of the Teachers' Pension Scheme (or its equivalent in Scotland or Northern Ireland) then things are different. Your normal pension age will be 60 – provided you haven't had a break in service of more than five years.

But I had a break.

If you had a break of more than five years, your NPA remains at 60 for service up to the end of the break in service. But it will be 65 for any future service. In pension terms you'll be classed as a 'person with mixed service'.

The Teachers' Pension Scheme is for teachers in England & Wales and as we've already mentioned, there are equivalent pension schemes for teachers in Scotland and Northern Ireland. Membership of these schemes can affect your NPA in the Teachers' Pension Scheme. If you've been in pensionable service without a break of more than five years, including pensionable service in Scotland or Northern Ireland, get in touch with us, and we'll be able to discuss your individual circumstances. Our contact details can be found at the back of the guide.

Finally, to qualify for retirement benefits you must normally have at least two years' pensionable service, after 5 April 1988 or five years at any time. If you've transferred in from another scheme, this may mean you qualify for benefits.

Applying for benefits

There are two ways of applying for retirement benefits:

- Ask your employer for the form, find a pen, fill it out, find a stamp, and post it back to them.
- Online at MyPensionOnline. A quick and paperless way of finding, completing and sending us your application form.

Guess which one's easier?

Retirement conditions

You must cease all employment before you are eligible to claim your benefits. This is with the exception of:

- Phased retirement, where you must have a salary reduction of 20%
- If you've opted out of the scheme on or after your normal pension age, the lump sum is payable, but your pension may be stopped or suspended part way through the year.

Timings

If you're like most teachers you're probably thinking of retiring at the end of a school term. In which case you should aim to complete and submit your retirement application early. That means at least three months before your payable date.

More than one employer?

If you have more than one employer when you apply for retirement benefits then you have to get a common retirement date agreed with all of them. What's more, every employer must complete an application form if you have worked for them in the last 12 months.

Payment of benefits

- You get monthly pension payments, which are paid the day before your birth date. So, for example, if you were born on the 7th of the month, your pension will be paid on the 6th of each month.
- If, for any reason, you don't receive a pension payment on your first pension payable date, the Teachers' Pension Scheme will automatically make a payment of a proportion of the arrears to your bank account. Tax will not be deducted from this payment. This payment will be issued without separate notification and it'll be taken into account when the first monthly pension payment (including the arrears) is made.

How retirement benefits are calculated

If you were a scheme member before 1 January 2007

Your benefits are made up of an annual pension and a lump sum. Both are calculated using your reckonable service and average salary. Your pension is 1/80th of the average salary multiplied by your reckonable service. This is taxable. The lump sum is 3 times your annual pension. You can also increase this lump sum by converting part of your pension, provided you have service on or after 1 January 2007.

If you became a scheme member on or after 1 January 2007

You will receive an annual pension calculated at 1/60th of the average salary multiplied by your reckonable service. The pension is taxable. You don't automatically get a lump sum. However, you may convert up to a maximum of the total pension value of your benefits into a lump sum. Each £1 of pension that you convert will create £12 of lump sum.

Average salary

If you have been in pensionable service on or after 1 January 2007, your average salary is the greater of the last 365 days of pensionable salary, or the best consecutive salaries revalued in the 10 years prior to leaving service.

If you have no pensionable service on or after 1 January 2007, your average salary will be the best 365 days in the last 1095 days before you left service.

Increasing your benefits

Additional pension

If you want to increase your pension benefits, you can buy additional pension as long as you are in pensionable employment and under 65.

Here's some other stuff you should know:

- Additional pension can be bought in multiples of £250 up to a maximum of £5,900 for 2012/13. (This amount is reviewed each year.)
- You can pay by a one-off or regular monthly payment.

Additional Voluntary Contributions (AVCs)

To increase your benefits you can pay Additional Voluntary Contributions (AVCs).

They don't form part of your Teachers' Pension Scheme benefits and are arranged separately by the Prudential.

However, if you wish, you can choose to make arrangements with any other provider.

To contact Prudential go to www.pru.co.uk/teachers/

Annual Allowance

Be aware that if you do make any additional contributions to increase your pension benefits it could take you over your annual allowance and you may incur a tax charge. Always take independent financial advice before investing in any scheme.

Care to make other pension arrangements?

Membership of the Teachers' Pension Scheme doesn't exclude you from any other schemes, so if you wish to join another pension scheme, we won't stop you.

However, we're not authorised to provide financial advice, so we recommend you see independent advice before making any decisions about your pension.

Restoring service

Did you receive a repayment of your pension contributions before 1 June 1973 and are you currently in pensionable service? If so, you can repay those contributions and interest and restore that service in the Teachers' Pension Scheme.

Index-linking

Inflation, as you know, can do those on a fixed income a lot of damage. Which is why your pension will be reviewed annually each April in order to maintain its purchasing power. That's a very good thing.

It's important to remember though:

- The rate of any increase will not mirror any increase in teachers' pay.
- If your pension is paid before your 55th birthday, index-linked increases will not be paid until after that birthday unless you are incapacitated. If this is the case, your benefits will be reviewed annually regardless of your age.

Potential restrictions or reductions

There are a some restrictions and reductions that may impact on your benefits.

If you have received a large salary increase (or increases) during the three years before retirement, your benefits may be restricted.

Here's how it works

- If your salary has increased in any of the three years by more than £5,400 or 10%, whichever is the greater, the salary used to calculate your benefits will be restricted.
- The figure of £5,400 will be increased annually, in line with factors provided by HM Treasury. If the average salary is restricted, your unused contributions will be refunded.
- If this affects you, your employers can decide to purchase additional pension, up to the maximum allowed, within six months of your leaving pensionable employment.

Outstanding contributions on retirement

If, on retirement, you're still paying additional contributions you'll have the option to either pay the remaining balance or receive a pension based on your contributions to date.

Keep in mind:

- If you are retiring on or after your NPA, and the contributions relate to additional survivor benefits, you'll be required to pay the full amount of outstanding contributions.
- Any outstanding amounts are deducted after any actuarial adjustment has been applied. Which means if you're intending to use your lump sum to increase your pension benefits, it could result in a tax charge if you breach the 'recycling' rule.

Please refer to the HM Revenue and Customs website for more details www.hmrc.gov.uk

Annual Allowance (AA)

If the growth in the value of your benefits exceeds £50,000 (2012/13) taking into account of any carry forward to previous years, your benefits may be subject to an AA charge. Further information can be found on www.HMRC.go.uk

Lifetime Allowance (LTA)

The LTA takes account of the total value of your pension benefits (excluding state benefits and dependants' pensions) across all registered pension schemes.

The amount of the allowance in 2012/13 is £1.5 million.

To see whether you'd be affected use the following formula:

$$\frac{(\text{Annual pension} \times 20) + \text{lump sum}}{\text{Lump Sum Lifetime Allowance}} \times 100 = \text{LTA\%}$$

Here's what you should know about exceeding the allowance:

- If the percentage exceeds 100% of the LTA, you will be liable for the LTA charge unless you have a protection certificate.
- You can find your current LTA percentage on your most recent Annual Benefit Statement.
- You can find out more about the Lifetime Allowance by visiting www.hmrc.gov.uk

Divorce or dissolution

If you are subject to a pension sharing order, your benefits will be reduced, in line with that order.

Returning to work after retirement

For lots of teachers, retirement isn't the end of their teaching career. So if you're planning to return to teaching in some capacity here's what you should know.

Abatement of pension during further employment

- You must inform us immediately if you take up any teaching employment by completing a 'certificate of re-employment' on the Teachers' Pension Scheme website. If you don't, your pension could be overpaid and we would have to recover this from you.
- You'll need to send us a re-employment certificate for every tax year you're working following your retirement.
- If you are receiving Age, Premature or Phased retirement benefits, your pension may be temporarily suspended, depending upon your earnings irrespective of whether your new employment is pensionable or not.

How does abatement work?

Your pension will be affected if your pension and re-employment earnings exceed your salary of reference.

Your salary of reference is the highest salary in the average salary period, as calculated at retirement. Your pension is paid to you by Teachers' Pensions but we also include any mandatory and discretionary payments that your employer at retirement may be paying in your re-employment assessment.

Your index-linked salary of reference minus the annual rate of pension payments equals the limit that your earnings may reach in the tax year before your pension is affected. If your earnings in the tax year exceed the limit, your pension will be stopped to prevent any overpayments being made to you which you later have to pay back.

Working after Actuarially Adjusted Retirement

There must be a cessation of all employment before AAB is payable. If you take up a further employment after you apply for AAB it must be under a completely different and new contract of employment, and there must be at least a one day break between contracts.

If you took Actuarially Adjusted Retirement, your pension will not be adjusted, unless you subsequently take Age, Premature or Ill health retirement. But you must notify us immediately if you take up any re-employment by completing a 'certificate of re-employment' on the Teachers' Pension Scheme website.

Working after ill health retirement

If you're receiving ill health benefits, it's because you had been judged permanently medically unfit to teach. So if you return to teaching, your ill health pension must stop immediately.

It's your responsibility to notify the Teachers' Pension Scheme in writing straightaway of any employment undertaken when in receipt of ill health benefits. What's more, if you wish to return to teaching, your employer must be satisfied that you are fit to teach in the capacity required.

Once your ill health pension is stopped

If your pension is stopped because you return to work, you'll only be awarded another ill health pension if you become ill again and satisfy us that you are unfit to teach. You can retire on any other grounds at the appropriate age.

Enhanced pension

If you're receiving an enhanced pension (Total Incapacity), and you intend to return to employment outside teaching you must provide a certificate from a registered medical practitioner.

The medical practitioner must be satisfied that you still have the medical condition that caused your enhanced pension to be paid. The nature of your proposed employment will also help us decide whether or not the enhanced pension can continue to be paid.

Things we'll need to know if you return to work

If you've been receiving a teachers' pension and you go back to work, there are five things you must tell us:

- 1 The name and address of your employer.
- 2 The date your employment started.
- 3 The duration of your employment (if you know it).
- 4 The rate of salary.
- 5 The nature of the employment (indicating whether it's full or part-time).

You should complete the certificate of re-employment, which is available on our website, to ensure we have all of this information.

Additional Service After Retirement (ASAR)

If your ASAR is pensionable, you'll get further retirement benefits on application. These will be based on your extra reckonable service and new salary rates.

If you're re-employed after taking retirement benefits, you must have one year of ASAR to qualify for further benefits. This does not include Phased Retirement.

The whole period of part-time employment counts towards qualification, just as if it were full-time.

If you have less than one year's service (365 days), and don't intend to continue in the Teachers' Pension Scheme, your contributions and interest will generate an annuity to add to your existing pension.

Further benefits

If you return to teaching after taking Age, Actuarially Adjusted, or Premature Retirement benefits, you may qualify (on application) for further benefits. If so, they'll be calculated using your post-retirement service and salaries.

Please note that if you claim your benefits before NPA, they will be actuarially adjusted.

If you are in pensionable employment when you complete your application, benefits will be payable from the first day after leaving employment. If not, you can choose the date the benefits are paid from – but not earlier than six weeks after the date of your application.



Any questions or complaints?

That's it, you're now up to speed with the basics of planning for your retirement. If you want to find out more, there are a few easy ways to go about it. You can go online and check out our website. Or get hold of one of the other guides we've produced. Or simply speak to the person whose job it is to administer your pension.

Finally, if you have any complaints, or if you're not happy with how we've dealt with something, please let us know.

Visit us at:

www.teacherspensions.co.uk

Call us on:

08456 066 166

Monday–Friday, 8.30am–6.00pm

Write to us at:

Teachers' Pensions
Mowden Hall
Darlington, DL3 9EE



Teachers' Pensions isn't authorised to provide financial advice. We recommend you seek independent financial advice before making any decisions about your pension.

The information contained in this guide is correct at the time of press, but may be subject to change. If there is any difference between the legislation governing the Teachers' Pension Scheme and the information contained in this guide, the legislation will apply.